

DRYDEN COMMUNITY SCHOOLS

DRYDEN, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 18, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Dryden Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dryden Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dryden Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dryden Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2006 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - IX, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dryden Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Dryden Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds, not the School District as a whole. The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The District has two kinds of fund:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Fiduciary funds – The District is the trustee or fiduciary agent for assets that belong to others in the student activities agency fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide Statement of Net Assets and Statement of Activities are reported using the full accrual basis of accounting. With this method, all of the District's assets, liabilities, current year revenues and expenditures are reported, regardless of when cash is received or paid. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Financial Position and Results of Operations:

The District' net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, is one indicator of whether its financial health is improving or deteriorating, respectively. The relationship between revenues and expenses indicates the District's operating results. To assess the District's overall health, it is important to consider additional non-financial factors such as the quality of educational services provided, the condition of school buildings and facilities, the safety of the schools, and other non-financial factors.

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SUMMARY OF NET ASSETS:

The District's net assets totaled \$1,467,136 at June 30, 2006. Of this amount \$512,558 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the District's ability to use those net assets for day-to-day operations. The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$2,245,171	\$2,503,152
Non-Current Assets	<u>7,485,261</u>	<u>7,779,607</u>
<u>TOTAL ASSETS</u>	<u>\$9,730,432</u>	<u>\$10,282,759</u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,455,208	\$1,722,447
Long-Term Liabilities	<u>6,808,088</u>	<u>6,951,191</u>
Total Liabilities	\$8,263,296	\$8,673,638
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	559,907	735,273
Restricted - Debt Service	352,728	309,017
Restricted - Capital Projects	41,943	62,354
Unrestricted	<u>512,558</u>	<u>502,477</u>
Total Net Assets	<u>\$1,467,136</u>	<u>\$1,609,121</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$9,730,432</u>	<u>\$10,282,759</u>

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$500,333	\$463,981
Property Taxes Levied for Debt Service	436,918	411,115
State of Michigan Unrestricted Foundation Aid	4,729,582	4,738,920
Other General Revenues	<u>147,367</u>	<u>99,877</u>
Total General Revenues	\$5,814,200	\$5,713,893
<u>Operating Grants:</u>		
Federal	160,219	164,529
State of Michigan	205,613	205,038
Other Operating Grants	<u>11,330</u>	<u>9,258</u>
Total Operating Grants	\$377,162	\$378,825
<u>Charges for Services:</u>		
Food Service	143,497	134,960
Athletics	40,175	39,811
Other Charges for Services	<u>101,536</u>	<u>92,097</u>
Total Charges for Services	\$285,208	\$266,868
Total Revenues	\$6,476,570	\$6,359,586
<u>EXPENSES</u>		
Instruction & Instructional Support	3,502,524	3,412,494
Support Services	2,132,825	1,969,910
Community Services	26,417	24,890
Food Service	200,697	215,427
Athletics	179,725	174,469
Interest on Long-Term Debt	303,938	305,703
Depreciation	<u>272,429</u>	<u>269,486</u>
Total Expenses	\$6,618,555	\$6,372,379
<u>INCREASE (DECREASE) IN NET ASSETS</u>	(\$141,985)	(\$12,793)
<u>BEGINNING NET ASSETS - AS RESTATED</u>	<u>1,609,121</u>	<u>1,621,914</u>
<u>ENDING NET ASSETS</u>	<u><u>\$1,467,136</u></u>	<u><u>\$1,609,121</u></u>

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets decreased by \$141,985 to a total of \$1,467,136. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$175,366 during the year due to depreciation and principal payments on related debt exceeding purchases of new capital assets. The districts Unrestricted Net Assets increased by \$10,081 during the year and the restricted portion of the net assets increased by \$23,300. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$141,985. The district's total revenues increased by \$116,984 or 2% over the prior year. The major change was the general fund increase in revenues as discussed below. Expenditures increased by \$246,176 or 4% over last year. This increase was due primarily to general fund increases in salaries, wages and employee benefits. Increases in these areas, totaled \$176,982. Energy related expenses increased \$34,803 from the previous year.

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The General Fund and the 2002 Debt Retirement Fund are the only major funds. Funds reported as "Other Governmental Funds" in the fund financial statements include the 1974 and 1978 Debt Retirement Funds, the 2002 Capital Projects Fund, Food Service and Athletics Funds.

General Fund

The district's general fund is the chief operating fund of the district. Fund balance for the general fund increased by \$15,094. Revenues for the year increased by \$87,190 primarily from loan proceeds, investment earnings and state aid. Expenditures and other financing uses increased by \$177,181 due primarily to increases in salaries, wages and employee benefits, as discussed above. The major source of general fund revenues is state aid and taxes with 94% of general fund operating revenue coming from these. Salaries and benefits amount to nearly 80% of the district's operating expenses.

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy.

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Dryden Community Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

3. Student Enrollment:

The District's student enrollment for the fall count of 2005-2006 was 774 students. A decrease of 12 students from the prior year.

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 17.33 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$498,456. An increase of \$29,241 from the prior year.

2002 Debt Retirement Fund

The districts debt retirement fund balance increased by \$61,872. The fund balance is restricted to use for payments on bonded debt. The funds had expenditures of \$405,790 in paying the required interest and principal payments of the school's bonded debt. The majority of the funds revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006, the District's debt millage levy was 2.24 mills that generated revenue of \$436,918. An increase of \$25,803 from the prior year.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS:

The District's budgets are prepared according to the Uniform Budget Act of the State of Michigan law which requires the Board of Education to approve the initial budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The initial budget is based on facts and assumptions known at the time of the initial budget preparation. It is expected that there will be changes between the initial budget and subsequent budgets, as many factors are not known at the time of adoption of the initial budget. Some of these factors include enrollment figures and resultant staffing requirements, staffing changes that take place during the year, state school aid adjustments, grant allocations, and other unforeseen items. As a matter of practice, the District amends its budget two times during the fiscal year to adjust for these changes.

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$5,666,873	\$5,753,351	\$5,771,204	1.53%	0.31
Expenditures	5,755,845	5,814,716	5,756,110	1.02%	1.01
<u>TOTAL</u>	<u>(\$88,972)</u>	<u>(\$61,365)</u>	<u>\$15,094</u>		

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ANALYSIS OF BUDGETS:

The following comparisons of budgets and final expenditures are computed using the Statement of Revenues, Expenditures and Changes as shown on page 6 of the 2005-2006 audit report.

Original Budget vs. Final Budget

Revenues

Local budgeted revenues increased \$19,147 from the original general fund budget. The major increases were in interest earnings and local contributions. State budgeted revenues increased \$7,635 from the original general fund budget. This was primarily due to the increase in At Risk funding for the year. At Risk funding increased \$8,008 from original projections. The number of students qualifying for free lunch increased by 15, therefore increasing our funding. Federal budgeted revenues increased \$1,794 from the original general fund budget. Title I funding decreased \$4,197 while the special education IDEA grant increased \$4,777 and Medicaid Outreach monies increased \$1,600.

Expenditures

Total expenditures increased by \$76,142 to a total of \$5,472,273 from the original general fund budget. The instructional area had significant changes in four line items. Elementary teaching salaries decreased \$29,293. High school classroom aid wages increased \$9,214 and dual enrollment increased \$11,250 from the original budget. The high school severance line item increased \$5,800 with one teacher retiring. In the board of education area, the other professional service line item decreased \$15,448 from the original budget. In the other business services area, the worker's compensation insurance line item increased \$5,002 and the interest line item increased \$6,450. In the operations area, the original budget increased a total of \$79,237. Gas and electric line items increased \$31,120. Custodial director wages, temporary custodian wages, contracted service for a director of district services and unemployment expenses all increased significantly. These line items increased a total of \$37,333. The staff changes in the operations department also caused the health insurance line item to decrease \$10,510. Outside contracted services for land and building repairs increased \$10,500 from the amount originally budgeted. Rental expenses increased \$3,000 due to the installation of water dispensers at the high school. In the transportation area, diesel fuel increased \$6,330.

Actual Results vs. Final Budget

Revenues

Local, state and federal revenues increased \$7,178 over the final budgeted amounts. Local revenues decreased \$308 from budgeted amounts. Local property tax collections were \$12,346 less than budgeted due to delinquent personal property taxes that will most likely be collected in the next fiscal year. The decrease in tax collections was offset by a significant increase in interest earnings of \$7,816 and an increase in miscellaneous revenue of \$3,694. State revenues increased \$6,663 from budgeted amounts. This increase was due to an adjustment in our 2005 Special Education Headlee funding which was received during 2005-2006. Federal revenues increased \$823 from the budgeted amounts.

Expenditures

Total expenditures decreased \$52,020 from the final budgeted amounts. The most significant savings was in the instructional area. Elementary instruction savings amounted to \$16,360, with teaching salaries and temporary teaching salaries coming in \$8,956 less than budgeted. Employee benefits were \$5,587 less than budgeted. High school instruction decreased \$7,712. In this area, driver's education expenses amounted to \$2,952 less than budgeted and dual enrollment tuition amounted to \$1,694 less. In the special education area, total expenditures amount to \$4,542 less than budgeted, with a savings of \$3,396 at the elementary and \$1,145 in savings at the high school. In the instructional support area, expenditures amounted to \$5,093 less than budgeted. Professional development for the district was \$1,311 less than budgeted and the district's media centers spent \$3,702 less than budgeted. Savings amounted to \$7,277 in the general administration area, which includes board of education and superintendent savings of \$3,348 and \$3,929 respectively. School administration savings amounted to \$4,147, with all of the savings coming at the elementary level. The operations and maintenance department's expenditures exceeded the budget by \$4,682. Overspending, amounting to \$9,523, occurred in the salaries and benefits area. Savings of \$5,697 in gas and electric expenses offset this. In the transportation area, the savings for the year amounted to \$7,452. Most of this savings came from parts and outside vehicle repairs that did not materialize.

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ANALYSIS OF BUDGETS: (Continued)

Other Financing Sources (Uses)

The district realized an additional \$17,261 in savings from other transactions. An additional \$10,675 of prior year expenditures were adjusted and recognized in the district's revenue accounts. These additional amounts were from adjustments from the 2004-2005 special education consortium and 2004-2005 accounts payable booked but not paid. Additional savings came from transferring \$3,394 less to the athletic fund than budgeted for.

Summary

The final budget estimated \$61,365 of fund equity to be used at year end. The actual change in fund equity will be an addition of \$15,094 to fund equity. This brings the district's fund equity balance to \$593,424. This \$76,459 variance amounts to just over 1.33% of the general fund budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>Governmental Activities:</u>				
General Obligation Bonds	\$7,044,334	\$0	\$162,980	\$6,881,354
Bus Note Payable	0	58,780	14,780	44,000
Severance Package Payable	10,100	0	2,525	7,575
Compensated Absences	62,262	9,543	0	71,805
<u>Total Governmental Activities</u>	<u>\$7,116,696</u>	<u>\$68,323</u>	<u>\$180,285</u>	<u>\$7,004,734</u>

Repayment of debt decreased the District's long-term principal obligations and, thereby increased the net assets of the District. The District repaid \$180,285 of long-term debt during the year ended June 30, 2006.

B. Capital Assets

The district's net investment in capital assets decreased by \$294,346 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
Capital Assets	\$10,807,906	\$104,532	\$0	\$10,912,438
Less: Accumulated Depreciation	(3,028,299)	(398,878)	0	(3,427,177)
<u>Net Investment Capital Outlay</u>	<u>\$7,779,607</u>	<u>(\$294,346)</u>	<u>\$0</u>	<u>\$7,485,261</u>

Significant additions were the purchase of a van and bus.

DRYDEN COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- * Foundation allowance
The foundation amount for the 2006-2007 school year will increase by \$233 to \$7,085 per student. The district is also expected to receive an additional \$14,000 in declining enrollment money and \$9,900 in middle school math money from the state. The district's September 2006 enrollment is expected to decline by 22 students. This decline in enrollment, combined with the increases in state revenues will amount to an additional \$100,000 in revenue to the district. This additional state revenue will be offset by decreases in other general fund revenues of approximately \$105,000.

- * Retirement rates
General fund expenses are expected to increase by \$79,204. The majority of this increase is in retirement expenses. The Michigan Public School Employees retirement rate will increase to 17.74% of all wages and salaries next year. The rate for 2005-2006 was 16.34% The retirement rate increase is estimated to increase retirement expenses by \$31,444.

The Dryden Community Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$6,076,414
<u>EXPENDITURES</u>	<u>6,228,290</u>
<u>NET (UNDER) BUDGET</u>	<u>(\$151,876)</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Amy Swantek, Accountant, Dryden Community Schools, 3866 Rochester Road, Dryden, Michigan 42428 or by telephone at (810) 796-9534.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$502,177
Investments	790,933
Deposits	9,656
Accounts Receivable	145
Property Taxes Receivable	37,939
Interest Receivable	3,912
Due from Other Governmental Units	894,519
Prepaid Expenses	5,890
Total Current Assets	<u>\$2,245,171</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	10,912,438
Less: Accumulated Depreciation	<u>(3,427,177)</u>
Total Noncurrent Assets	<u>\$7,485,261</u>
<u>TOTAL ASSETS</u>	\$9,730,432
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	29,768
State Anticipation Note Payable	771,000
Due to Other Governmental Units	24,286
Accrued Expenses	142,395
Salaries Payable	288,878
Deferred Revenue	2,235
Current Portion of Long-Term Obligations	196,646
Total Current Liabilities	<u>\$1,455,208</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>6,808,088</u>
<u>TOTAL LIABILITIES</u>	\$8,263,296
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	559,907
Restricted for:	
Debt Service	352,728
Capital Projects	41,943
Unrestricted	<u>512,558</u>
<u>TOTAL NET ASSETS</u>	<u>\$1,467,136</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$3,502,524	\$35,513	\$284,928	(\$3,182,083)
Support Services	2,132,825	50,042	21,811	(2,060,972)
Community Services	26,417	15,981	0	(10,436)
Food Service	200,697	143,497	70,423	13,223
Athletics	179,725	40,175	0	(139,550)
Interest - Long-Term Obligations	303,938	0	0	(303,938)
Depreciation - Unallocated	272,429	0	0	(272,429)
<u>TOTALS</u>	<u>\$6,618,555</u>	<u>\$285,208</u>	<u>\$377,162</u>	<u>(\$5,956,185)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				937,251
State Aid				4,729,582
Investment Earnings				50,781
Miscellaneous				96,586
Total General Revenues and Transfers				<u>\$5,814,200</u>
Change in Net Assets				(\$141,985)
Net Assets - Beginning				<u>1,609,121</u>
<u>Net Assets - Ending</u>				<u>\$1,467,136</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	2002 Debt Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$97,479	\$352,728	\$51,970	\$502,177
Investments	790,933	0	0	790,933
Deposits	9,656	0	0	9,656
Accounts Receivable	145	0	0	145
Property Taxes Receivable	33,485	4,454	0	37,939
Interest Receivable	3,912	0	0	3,912
Due from Other Funds	0	0	835	835
Due from Other Governmental Units	892,492	0	2,027	894,519
Prepaid Expenses	5,210	0	680	5,890
<u>TOTAL ASSETS</u>	<u>\$1,833,312</u>	<u>\$357,182</u>	<u>\$55,512</u>	<u>\$2,246,006</u>
<u>LIABILITIES</u>				
Accounts Payable	\$29,768	\$0	\$0	\$29,768
State Anticipation Note Payable	771,000	0	0	771,000
Due to Other Funds	835	0	0	835
Due to Other Governmental Units	23,286	0	1,000	24,286
Accrued Expenses	91,236	0	0	91,236
Salaries Payable	288,878	0	0	288,878
Deferred Revenue	34,885	4,454	835	40,174
Total Liabilities	\$1,239,888	\$4,454	\$1,835	\$1,246,177
<u>FUND BALANCES</u>				
Reserved For:				
Debt Retirement	0	352,728	0	352,728
Capital Projects	0	0	41,943	41,943
Unreserved:				
Undesignated, Reported In:				
General Fund	593,424	0	0	593,424
Special Revenue Funds	0	0	11,734	11,734
Total Fund Balances	\$593,424	\$352,728	\$53,677	\$999,829
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$1,833,312</u>	<u>\$357,182</u>	<u>\$55,512</u>	<u>\$2,246,006</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances:		\$999,829
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$10,912,438 and the accumulated depreciation is \$3,427,177		7,485,261
Accrued Interest on Long-Term Debt		(51,159)
Deferred revenue is included as a liability in governmental funds		37,939
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$6,925,354	
Severance Package Payable	7,575	
Compensated Absences	71,805	
Total Long-Term Liabilities		<u>(7,004,734)</u>
<u>TOTAL NET ASSETS -</u>		
<u>GOVERNMENTAL ACTIVITIES</u>		<u>\$1,467,136</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	2002 Debt Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$623,180	\$449,330	\$196,912	\$1,269,422
State Sources	4,919,626	0	15,569	4,935,195
Federal Sources	101,041	0	59,178	160,219
Total Revenues	<u>\$5,643,847</u>	<u>\$449,330</u>	<u>\$271,659</u>	<u>\$6,364,836</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,416,510	0	0	3,416,510
Student Services	110,296	0	0	110,296
Instructional Support	65,819	0	0	65,819
General Administration	289,536	0	0	289,536
School Administration	419,083	0	0	419,083
Business Administration	48,178	0	0	48,178
Operation & Maintenance of Plant	633,244	0	0	633,244
Transportation	376,201	0	0	376,201
Other Support Services	34,969	0	0	34,969
Community Services	26,417	0	0	26,417
Special Revenue	0	0	377,191	377,191
Debt Service				
Redemption of Bonds	0	105,000	17,980	122,980
Interest	0	300,105	3,797	303,902
Dues and Fees	0	685	300	985
Capital Projects	0	0	22,311	22,311
Total Expenditures	<u>\$5,420,253</u>	<u>\$405,790</u>	<u>\$421,579</u>	<u>\$6,247,622</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$223,594	\$43,540	(\$149,920)	\$117,214
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	(128,859)	18,332	110,527	0
Other Transfers	(79,641)	0	0	(79,641)
Total Other Financing Sources (Uses)	<u>(\$208,500)</u>	<u>\$18,332</u>	<u>\$110,527</u>	<u>(\$79,641)</u>
Net Change in Fund Balance	\$15,094	\$61,872	(\$39,393)	\$37,573
<u>FUND BALANCE - BEGINNING</u>	<u>578,330</u>	<u>290,856</u>	<u>93,070</u>	<u>962,256</u>
<u>FUND BALANCE - ENDING</u>	<u>\$593,424</u>	<u>\$352,728</u>	<u>\$53,677</u>	<u>\$999,829</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	\$37,573
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(294,346)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	180,285
Loan Proceeds	(58,780)
(Increase) in accrued compensated absences	(9,543)
Revenue reported in the statement of activities last year that did not provide current financial resources and are not reported as revenue in the governmental funds	1,877
Change in accrued interest on long-term liabilities	<u>949</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$141,985)</u></u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$60,060</u>
<u>TOTAL ASSETS</u>	<u>\$60,060</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$60,060</u>
<u>TOTAL LIABILITIES</u>	<u>\$60,060</u>

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$604,341	\$623,488	\$623,180	(\$308)
State Sources	4,905,328	4,912,963	4,919,626	6,663
Federal Sources	98,424	100,218	101,041	823
Total Revenues	<u>\$5,608,093</u>	<u>\$5,636,669</u>	<u>\$5,643,847</u>	<u>\$7,178</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,487,527	3,445,662	3,416,510	29,152
Student Services	107,941	112,018	110,296	1,722
Instructional Support	74,595	70,912	65,819	5,093
General Administration	314,755	296,813	289,536	7,277
School Administration	412,203	423,230	419,083	4,147
Business Administration	43,367	49,559	48,178	1,381
Operation & Maintenance of Plant	549,325	628,562	633,244	(4,682)
Transportation	343,031	383,653	376,201	7,452
Other Support Services	37,928	35,414	34,969	445
Community Services	25,459	26,450	26,417	33
Total Expenditures	<u>\$5,396,131</u>	<u>\$5,472,273</u>	<u>\$5,420,253</u>	<u>\$52,020</u>
Excess of Revenues Over Expenditures	<u>\$211,962</u>	<u>\$164,396</u>	<u>\$223,594</u>	<u>\$59,198</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(300,934)</u>	<u>(225,761)</u>	<u>(208,500)</u>	<u>17,261</u>
Net Change in Fund Balance	<u>(\$88,972)</u>	<u>(\$61,365)</u>	<u>\$15,094</u>	<u>\$76,459</u>
<u>FUND BALANCE - BEGINNING</u>			<u>578,330</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$593,424</u>	

See accompanying notes to the basic financial statements.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The School District is governed by an elected seven-member Board of Education. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Dryden Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District's overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS (Continued)

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$2,500 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

The District did not adopt a budget for the 2002 Debt Retirement fund for the 2005-2006 year.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment Pool - MIMAX	\$ 290,933	0.0027	AAAm	36.78%
MILAF External Investment Pool - Term	500,000	0.1151	AAAm	63.22%
<u>TOTAL</u>	<u>\$ 790,933</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0737</u>		

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$451,955 of the District's bank balance of \$904,683 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$60,060	\$ 562,237
Investments	<u>790,933</u>
<u>TOTAL</u>	<u>\$ 1,353,170</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 60,060
Cash – District Wide	502,177
Investments – District Wide	<u>790,933</u>
<u>TOTAL</u>	<u>\$ 1,353,170</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	<u>\$ 894,519</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the School District had estimated claims of \$8,316 in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$771,000 at 2.92% interest per annum on August 19, 2005, from Chase Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note matures August 18, 2006.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2006</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$137,502	\$0	\$0	\$137,502
Buildings and Improvements	8,962,314	12,828	0	8,975,142
Land Improvements	483,981	3,384	0	487,365
Equipment and Furniture	827,006	12,300	0	839,306
Vehicles	397,103	76,020	0	473,123
Totals at Historical Cost	<u>\$10,807,906</u>	<u>\$104,532</u>	<u>\$0</u>	<u>\$10,912,438</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(2,488,076)	(236,443)	0	(2,724,519)
Land Improvements	(30,609)	(20,470)	0	(51,079)
Equipment and Furniture	(260,670)	(109,035)	0	(369,705)
Vehicles	(248,944)	(32,930)	0	(281,874)
Total Accumulated Depreciation	<u>(\$3,028,299)</u>	<u>(\$398,878)</u>	<u>\$0</u>	<u>(\$3,427,177)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$7,779,607</u>	<u>(\$294,346)</u>	<u>\$0</u>	<u>\$7,485,261</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 86,014
Support Services	34,047
Food Service	1,301
Athletics	5,087
Unallocated	<u>272,429</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 398,878</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$48,737 and the District received a refund of \$7,841.

11) GENERAL LONG-TERM DEBT

A) General Obligation – School Building and Site Bonds

1998 Series

Dryden Community Schools has issued General Obligation Bonds dated June 1, 1998, in the amount of \$135,000, bearing interest at rates varying from 4.85% to 5.35% per annum. The proceeds are to be used for the purpose of erecting, furnishing, and equipping a bus garage, acquiring a school bus, and developing and improving the site. The balance of the bonds as of June 30, 2006 was \$35,000.

2002 Series

Dryden Community Schools has issued General Obligation Bonds dated November 1, 2002, in the amount of \$6,870,000, bearing interest at rates varying from 3.00% to 5.00% per annum. The proceeds are to be used for the purpose of erecting, furnishing, and equipping and addition or additions to, and partially remodeling, furnishing, and re-equipping technology for the elementary school and high school, acquiring buses, improving play fields at the high school, and developing and improving sites. The balance of the bonds as of June 30, 2006 was \$6,635,000.

B) 1999 Energy Conservation Improvement Bonds

Dryden Community Schools issued general obligation - limited tax bonds for the purpose of defraying the cost of energy conservation building improvements.

The bonds are dated June 24, 1999 in the aggregate amount of \$390,000 and require annual payments of principal and interest. The interest rates range from 4.45% to 4.85% per annum. The principal balance at June 30, 2006 was \$175,000.

C) Durant Resolution Package Bonds

Dryden Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$61,569 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$36,354. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

D) Employee Severance Plan

During the year ended June 30, 2001, the District implemented an employee severance plan for early retirement of employees who met certain criteria. Six teachers elected the plan, exiting the district in June, 2001. Benefits shall be paid by Educator Preferred Corporation in 96 equal monthly installments to five teachers and 36 equal monthly installments to the remaining teacher electing the plan. The balance at June 30, 2006 was \$7,575.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL LONG-TERM DEBT (Continued)

E) Notes Payable

Dryden Community Schools is indebted to Oxford Bank for the purchase of a bus. The note is payable in the amount of \$58,780. The note requires annual payments of \$11,000, plus interest at 3.1% and matures May 1, 2010. The balance of the note at June 30, 2006 was \$44,000.

F) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	SEVERANCE PACKAGE	NOTES PAYABLE	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2007	\$2,525	\$11,000	\$183,121	\$320,518	\$517,164
June 30, 2008	2,525	11,000	213,271	313,683	540,479
June 30, 2009	2,525	11,000	198,426	305,391	517,342
June 30, 2010	0	11,000	208,589	297,877	517,466
June 30, 2011	0	0	184,881	283,541	468,422
June 30, 2012-2016	0	0	983,066	1,288,654	2,271,720
June 30, 2017-2021	0	0	1,240,000	1,061,218	2,301,218
June 30, 2022-2026	0	0	1,575,000	746,901	2,321,901
June 30, 2027-2031	0	0	1,745,000	346,872	2,091,872
June 30, 2032	0	0	350,000	17,500	367,500
<u>TOTAL</u>	<u>\$7,575</u>	<u>\$44,000</u>	<u>\$6,881,354</u>	<u>\$4,982,155</u>	<u>\$11,915,084</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$315,208.

G) Changes in General Long-Term Debt

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006	AMOUNT DUE IN ONE YEAR
Governmental Activities:					
General Obligation Bonds	\$7,044,334	\$0	\$162,980	\$6,881,354	\$183,121
Bus Note Payable	0	58,780	14,780	44,000	11,000
Severance Package Payable	10,100	0	2,525	7,575	2,525
Compensated Absences	62,262	9,543	0	71,805	0
<u>Total Governmental Activities</u>	<u>\$7,116,696</u>	<u>\$68,323</u>	<u>\$180,285</u>	<u>\$7,004,734</u>	<u>\$196,646</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

12) OPERATING LEASES

On July 13, 2004, the District leased equipment under a operating lease agreement with Xerox. The lease is for 60 months and requires monthly payments of \$1,195. Rent expense for the year was \$14,340. The future minimum payments are as follows:

YEAR ENDED JUNE 30,	AMOUNT
2007	\$ 14,340
2008	14,340
2009	1,195
<u>TOTAL</u>	<u>\$ 29,875</u>

13) INTERFUND ACTIVITY

Interfund balances at June 30, 2006 consisted of the following:

DUE TO	DUE FROM
	General Fund
Athletic Fund	<u>\$835</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS TO	TRANSFERS FROM			
	General Fund	Food Service	Debt Retirement	Total
General Fund	\$0	\$17,500	\$0	\$17,500
Athletics Fund	128,606	0	0	128,606
Debt Retirement	17,753	0	18,332	36,085
<u>TOTAL</u>	<u>\$146,359</u>	<u>\$17,500</u>	<u>\$18,332</u>	<u>\$182,191</u>

These transfers were made to subsidize the cost of services for athletics and to cover principal and interest payment for debt.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

15) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$543,143, \$482,492 and \$420,642, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

16) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies.

In January 2006, the federal regulation for arsenic amounts in the drinking water changed. In order to comply with the new regulation the District will be purchasing a new well. At this time the cost to complete the project is unknown.

18) SUBSEQUENT EVENTS

In August, 2006, the District borrowed \$880,000 at 3.68% from Chase Bank on a State Aid Anticipation Note. The note proceeds will be used to meet cash flow needs for the 2006-2007 fiscal year.

OTHER SUPPLEMENTAL
INFORMATION

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	Special Revenue Fund	Debt Retirement Fund	2002 Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$9,027	\$0	\$42,943	\$51,970
Due from Other Funds	835	0	0	835
Due from Other Governmental Units	2,027	0	0	2,027
Prepaid Expenses	680	0	0	680
<u>TOTAL ASSETS</u>	<u>\$12,569</u>	<u>\$0</u>	<u>\$42,943</u>	<u>\$55,512</u>
<u>LIABILITIES</u>				
Due to Other Governmental Units	\$0	\$0	\$1,000	\$1,000
Deferred Revenue	835	0	0	835
Total Liabilities	\$835	\$0	\$1,000	\$1,835
<u>FUND BALANCES</u>				
Reserved For:				
Capital Projects	0	0	41,943	41,943
Unreserved:				
Undesignated, Reported In:				
Special Revenue Funds	11,734	0	0	11,734
Total Fund Balances	\$11,734	\$0	\$41,943	\$53,677
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$12,569</u>	<u>\$0</u>	<u>\$42,943</u>	<u>\$55,512</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Fund	Debt Retirement Fund	2002 Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$194,841	\$171	\$1,900	\$196,912
State Sources	11,245	4,324	0	15,569
Federal Sources	59,178	0	0	59,178
Total Revenues	<u>\$265,264</u>	<u>\$4,495</u>	<u>\$1,900</u>	<u>\$271,659</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>111,106</u>	<u>(579)</u>	<u>0</u>	<u>110,527</u>
Total Revenues & Other Financing Sources	<u>\$376,370</u>	<u>\$3,916</u>	<u>\$1,900</u>	<u>\$382,186</u>
<u>EXPENDITURES</u>				
Special Revenue	377,191	0	0	377,191
Debt Service	0	22,077	0	22,077
Capital Projects				
Purchased Services	0	0	5,479	5,479
Building Improvements	0	0	16,832	16,832
Total Expenditures	<u>\$377,191</u>	<u>\$22,077</u>	<u>\$22,311</u>	<u>\$421,579</u>
Net Change in Fund Balance	<u>(\$821)</u>	<u>(\$18,161)</u>	<u>(\$20,411)</u>	<u>(\$39,393)</u>
<u>NET ASSETS - BEGINNING</u>	<u>12,555</u>	<u>18,161</u>	<u>62,354</u>	<u>93,070</u>
<u>NET ASSETS - ENDING</u>	<u>\$11,734</u>	<u>\$0</u>	<u>\$41,943</u>	<u>\$53,677</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SPECIAL REVENUE
COMBINING BALANCE SHEET
AS OF JUNE 30, 2006

	Food Service	Athletic Activities	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$9,027	\$0	\$9,027
Due from Other Funds	0	835	835
Due from Other Governmental Units	2,027	0	2,027
Prepaid Expenses	680	0	680
<u>TOTAL ASSETS</u>	<u>\$11,734</u>	<u>\$835</u>	<u>\$12,569</u>
<u>LIABILITIES</u>			
Deferred Revenue	\$0	\$835	\$835
<u>FUND EQUITY</u>			
Unreserved and Undesignated	11,734	0	11,734
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$11,734</u>	<u>\$835</u>	<u>\$12,569</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	Food Service	Athletic Activities	Total
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$143,497	\$0	\$143,497
Athletic Activities	0	40,175	40,175
Interest	1,213	0	1,213
Other Local Sources	4,099	5,857	9,956
Total Local Sources	<u>\$148,809</u>	<u>\$46,032</u>	<u>\$194,841</u>
<u>State Sources</u>			
State Reimbursements	11,245	0	11,245
<u>Federal Sources</u>			
Federal Reimbursements	43,247	0	43,247
Commodities	15,931	0	15,931
Total Federal Sources	<u>\$59,178</u>	<u>\$0</u>	<u>\$59,178</u>
Total Revenues	<u>\$219,232</u>	<u>\$46,032</u>	<u>\$265,264</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	128,606	128,606
Total Revenues and Other Financing Sources	<u>\$219,232</u>	<u>\$174,638</u>	<u>\$393,870</u>
<u>EXPENDITURES</u>			
Salaries - Professional	6,306	24,000	30,306
Salaries - Non-Professional	64,363	85,303	149,666
Insurance	321	13,913	14,234
Fica, Retirement, Etc.	16,860	25,080	41,940
Purchased Services	1,522	13,117	14,639
Supplies and Materials	109,243	6,270	115,513
Capital Outlay	3,157	788	3,945
Other	781	6,167	6,948
Total Expenditures	<u>\$202,553</u>	<u>\$174,638</u>	<u>\$377,191</u>
<u>OTHER FINANCING (USES)</u>			
Transfers to General Fund	17,500	0	17,500
Total Expenditures and Other Financing Uses	<u>\$220,053</u>	<u>\$174,638</u>	<u>\$394,691</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</u>	<u>(\$821)</u>	<u>\$0</u>	<u>(\$821)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$12,555</u>	<u>\$0</u>	<u>\$12,555</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$11,734</u>	<u>\$0</u>	<u>\$11,734</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
COMBINING BALANCE SHEET
DEBT RETIREMENT FUND
AS OF JUNE 30, 2006

	1974 Debt Fund	1998 Debt Fund	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$0	\$0	\$0
Property Taxes Receivable	0	0	0
<u>TOTAL ASSETS</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>LIABILITIES</u>			
Deferred Revenue	\$0	\$0	\$0
<u>FUND BALANCES</u>			
Reserved For:			
Debt Retirement	0	0	0
<u>TOTAL FUND BALANCES</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	1974 Debt Fund	1998 Debt Fund	Durant Debt Fund	Total
<u>REVENUE</u>				
<u>Local Sources</u>				
Earnings on Investments	\$171	\$0	\$0	\$171
<u>State Sources</u>	0	0	4,324	4,324
Total Revenue	\$171	\$0	\$4,324	\$4,495
<u>OTHER FINANCING SOURCES</u>				
Transfer from Other Funds	0	17,753	0	17,753
Total Revenues and Other Financing Sources	\$171	\$17,753	\$4,324	\$22,248
<u>EXPENDITURES</u>				
Redemption of Bonds	0	15,000	2,980	17,980
Interest	0	2,453	1,344	3,797
Dues and Fees	0	300	0	300
Total Expenditures	\$0	\$17,753	\$4,324	\$22,077
<u>OTHER FINANCING USES</u>				
Transfer to Other Funds	18,332	0	0	18,332
	\$18,332	\$17,753	\$4,324	\$40,409
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</u>	(\$18,161)	\$0	\$0	(\$18,161)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	18,161	0	0	18,161
<u>FUND BALANCE - END OF YEAR</u>	\$0	\$0	\$0	\$0

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROM
Local Sources

Property Tax Levy	\$498,456
Earnings on Investments and Deposits	35,085
Tuition	35,513
Medicaid	11,330
Transportation	4,085
Other Local Revenues	38,711
Total Revenues from Local Sources	<u>\$623,180</u>

State Sources

State Aid - Foundation - Sec. 20	4,729,582
Durant	6,157
At Risk - Sec. 31A	44,405
Special Education	139,482
Total Revenues from State Sources	<u>\$4,919,626</u>

Federal Sources

Title I	23,783
Title II	21,826
Title V	320
IDEA Flowthrough	49,858
Homeland Security Grant	2,624
Medicaid - Outreach	1,882
Capacity Building	748
Total Revenues from Federal Sources	<u>\$101,041</u>
Total Revenues	<u>\$5,643,847</u>

OTHER FINANCING SOURCES

Transfer from Other Governmental Units	45,957
Transfers from Other Funds	17,500
Other Transfers	63,900
Total Other Financing Sources	<u>\$127,357</u>

TOTAL REVENUES AND OTHER
FINANCING SOURCES

\$5,771,204

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$929,944
Salaries - Non-Professional	27,273
Insurances	173,568
Fica, Retirement, Etc.	229,343
Other Benefits	18,000
Purchased Services	2,570
Supplies and Materials	30,243
Total Elementary	<u>\$1,410,941</u>

Secondary

Salaries - Professional	995,861
Salaries - Non-Professional	38,215
Insurances	247,436
Fica, Retirement, Etc.	244,671
Other Benefits	3,410
Purchased Services	23,611
Supplies and Materials	26,150
Capital Outlay	3,663
Other	1,173
Total Secondary	<u>\$1,584,190</u>

Preschool

Salaries - Professional	16,421
Salaries - Non-Professional	543
Fica, Retirement, Etc.	4,043
Purchased Services	20
Supplies and Materials	1,138
Other	82
Total Preschool	<u>\$22,247</u>

Total Basic Programs

\$3,017,378

ADDED NEEDSSpecial Education

Salaries - Professional	209,484
Salaries - Non-Professional	15,081
Insurances	41,637
Fica, Retirement, Etc.	53,440
Purchased Services	153
Supplies and Materials	841
Capital Outlay	1,015
Other	50
Total Special Education	<u>\$321,701</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)

ADDED NEEDS

Compensatory Education

Salaries - Professional	\$4,710
Salaries - Non-Professional	56,604
Fica, Retirement, Etc.	14,622
Other Benefits	505
Supplies and Materials	320
Other	670
Total Compensatory Education	<u>\$77,431</u>

Total Added Needs	<u>\$399,132</u>
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<u>TOTAL INSTRUCTION</u>	<u>\$3,416,510</u>
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SUPPORT SERVICES

Student Services

Salaries - Professional	67,496
Salaries - Non-Professional	5,607
Insurances	17,349
Fica, Retirement, Etc.	17,404
Other Benefits	505
Purchased Services	1,037
Supplies and Materials	898
Total Student Services	<u>\$110,296</u>

Instructional Support

Salaries - Professional	2,980
Salaries - Non-Professional	38,397
Fica, Retirement, Etc.	9,862
Other Benefits	505
Purchased Services	8,277
Supplies and Materials	3,189
Capital Outlay	204
Other	2,405
Total Instructional Support	<u>\$65,819</u>

General Administration

Salaries - Professional	103,569
Salaries - Non-Professional	35,152
Insurances	16,282
Fica, Retirement, Etc.	32,960
Other Benefits	2,794
Purchased Services	93,171
Supplies and Materials	1,609
Capital Outlay	104
Other	3,895
Total General Administration	<u>\$289,536</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

School Administration

Salaries - Professional	\$169,245
Salaries - Non-Professional	101,551
Insurances	69,935
Fica, Retirement, Etc.	64,344
Other Benefits	3,600
Purchased Services	5,784
Supplies and Materials	2,774
Capital Outlay	270
Other	1,580
Total School Administration	<u>\$419,083</u>

Business Office

Fica, Retirement, Etc.	12,866
Purchased Services	9,183
Other	26,129
Total Business Office	<u>\$48,178</u>

Operation and Maintenance

Salaries - Professional	11,213
Salaries - Non-Professional	176,341
Insurances	32,924
Fica, Retirement, Etc.	49,865
Other Benefits	800
Purchased Services	124,797
Supplies and Materials	226,706
Capital Outlay	9,994
Other	604
Total Operation and Maintenance of Plant	<u>\$633,244</u>

Transportation

Salaries - Non-Professional	175,599
Insurances	14,506
Fica, Retirement, Etc.	41,616
Other Benefits	40
Purchased Services	12,506
Supplies and Materials	53,977
Capital Outlay	76,020
Other	1,937
Total Transportation	<u>\$376,201</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

Other Support Services

Salaries - Professional	\$8,200
Salaries - Non-Professional	1,625
Fica, Retirement, Etc.	2,349
Purchased Services	22,720
Supplies and Materials	75
Total Other Support Services	<u>\$34,969</u>

TOTAL SUPPORT SERVICES \$1,977,326

COMMUNITY SERVICES

Salaries - Professional	19,725
Fica, Retirement, Etc.	4,691
Supplies and Materials	1,962
Other	39
Total Community Services	<u>\$26,417</u>

TOTAL EXPENDITURES \$5,420,253

OTHER FINANCING USES

Transfers to Other Funds	146,359
Other Transfers	109,092
Payments and Interest	<u>80,406</u>

TOTAL OTHER FINANCING USES \$335,857

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$5,756,110

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
TRUST AND AGENCY FUNDS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due to (From)			Due to (From)
	Student Groups	Receipts	Disbursements	Student Groups
	7-1-05			6-30-06
Athletics - Booster Projects	\$301	\$5,260	\$3,046	\$2,515
Athletics - Busing	707	0	25	682
Athletics - Dues & Fees	0	678	678	0
Athletics Gate & Officials	0	25,544	25,544	0
Athletics - Pay to Participate	0	18,000	18,000	0
Baseball	79	699	586	192
Basketball	51	4,215	4,040	226
Basketball - Junior High - Boys	0	74	0	74
Basketball - Junior High	3	0	0	3
Basketball - Freshman	0	15	0	15
Box Tops for Education - Elem.	3,695	1,065	2,670	2,090
Cardinal Creations	662	0	0	662
Cheerleading	693	4,892	4,907	678
Cheerleading - Junior High	485	1,846	1,532	799
Class of 2004	24	0	24	0
Class of 2006	1,574	1,018	2,592	0
Class of 2007	1,271	8,908	8,056	2,123
Class of 2008	4,519	8,451	5,662	7,308
Class of 2009	0	3,322	1,152	2,170
Class of 2011	526	0	0	526
Color Me Green	393	0	57	336
Det Ed Grant - Roys	0	3,965	3,965	0
Drama	296	1,734	1,653	377
Elementary - Miscellaneous	525	1,089	971	643
Elementary Student Council	524	418	0	942
Enrichment	165	0	165	0
Enrichment - Elementary	25	5,475	3,985	1,515
Flood Relief	0	1,036	646	390
Football	834	4,357	3,406	1,785
Former Graduates	1,448	0	0	1,448
Four County - Hand on Lit.	75	0	0	75
Four County Grant - Hudson	252	435	435	252
French/Spanish Club	0	1,241	1,193	48
Genesee ISD Project Tap	350	0	0	350
Girls Basketball	28	2,854	2,409	473
Girls Basketball - JV	0	42	12	30
Golf	251	360	611	0
Graphic Arts	1,114	0	1,114	0
Industrial Arts Club	271	0	271	0
Interest	2,896	2,459	1,052	4,303
Junior High Environmental	222	75	0	297
Knights of Columbus - Elem.	275	0	0	275
Knights of Columbus - HS	1,007	0	828	179
Library Fund - Elementary	350	266	268	348

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN

TRUST AND AGENCY FUNDS

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due to (From)			Due to (From)
	Student Groups	Receipts	Disbursements	Student Groups
	7-1-05			6-30-06
Library Fund - High School	\$2,670	\$1,037	\$2,093	\$1,614
Mass Media	1,986	7,787	7,655	2,118
Math/Science - High School	120	0	0	120
Meijer Rewards - Elem.	1,033	1,250	777	1,506
Meijer Rewards - High School	883	912	704	1,091
Miscellaneous	0	3,134	2,049	1,085
Music	969	5,890	6,145	714
National Honor Society	337	146	410	73
Pepsi Money - Elementary	63	0	0	63
Pepsi Money - High School	2,606	2,894	4,271	1,229
Pre-School Fundraiser	262	0	0	262
Project Graduation - Current	14	16,024	16,038	0
Project Graduation - 2007	0	4,192	0	4,192
PTO - High School	2,696	6,167	5,574	3,289
Quiz Bowl	83	990	86	987
SADD	507	518	875	150
SchoolCash.com - Elementary	29	0	0	29
School Improvement - HS	1,330	0	1,330	0
Sixth Grade Trip	968	8,407	8,899	476
Ski Club - Junior High & HS	267	1,371	1,638	0
Spanish Club	0	96	96	0
Student Council - High School	2,237	4,138	4,462	1,913
Student Council - Junior High	456	347	675	128
Target Account - Elementary	503	552	251	804
Target Rewards - High School	219	99	219	99
Tom Sterner Memorial Scholar.	782	0	500	282
Tom Sterner Volleyball	299	1,916	2,115	100
Track Invitationals	120	0	120	0
Track - Varsity	0	344	340	4
Varsity Soccer	1,139	4,144	3,386	1,897
Varsity Softball	1,986	3,288	4,901	373
Verizon - High School	104	89	139	54
Volleyball	532	1,151	734	949
Junior High Football	128	0	0	128
Junior High Volleyball	204	742	746	200
Wrestling	2	0	0	2
TOTAL STUDENT GROUPS	\$51,425	\$187,418	\$178,783	\$60,060

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2006

GENERAL OBLIGATION - 1998 SCHOOL BUILDING AND SITE BONDS

Date of Issue - June 1, 1998

Original amount of issue - \$135,000

	INTEREST RATE	PRINCIPAL AMOUNT	INTEREST AMOUNT NOVEMBER 1	INTEREST AMOUNT MAY 1	TOTAL
<u>PAYMENT DATE - MAY 1ST</u>					
2006-2007	4.85% - 4.95%	\$15,000	\$863	\$862	\$16,725
2007-2008	4.95%	20,000	495	495	20,990
<u>TOTAL</u>		<u>\$35,000</u>	<u>\$1,358</u>	<u>\$1,357</u>	<u>\$37,715</u>

1999 ENERGY CONSERVATION IMPROVEMENT BONDS

Date of Issue - June 24, 1999

Original amount of issue - \$390,000

	INTEREST RATE	PRINCIPAL AMOUNT	INTEREST AMOUNT NOVEMBER 1	INTEREST AMOUNT MAY 1	TOTAL
<u>PAYMENT DATE - MAY 1ST</u>					
2006-2007	4.55% - 4.65	\$40,000	\$4,136	\$4,136	\$48,272
2007-2008	4.65%	45,000	3,206	3,206	51,412
2008-2009	4.75%	45,000	2,160	2,160	49,320
2009-2010	4.85%	45,000	1,092	1,092	47,184
<u>TOTAL</u>		<u>\$175,000</u>	<u>\$10,594</u>	<u>\$10,594</u>	<u>\$196,188</u>

1998 DURANT RESOLUTION PACKAGE BONDS

Date of Issue - November 24, 1998

Original amount of issue - \$61,569

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2007	\$3,121	4.761353%	\$1,202	\$4,323
2008	3,271	4.761353%	1,053	4,324
2009	3,426	4.761353%	897	4,323
2010	3,589	4.761353%	734	4,323
2011	14,881	4.761353%	5,523	20,404
2012	3,939	4.761353%	384	4,323
2013	4,127	4.761353%	196	4,323
<u>TOTAL</u>	<u>\$36,354</u>		<u>\$9,989</u>	<u>\$46,343</u>

DRYDEN COMMUNITY SCHOOLS - DRYDEN, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2006

GENERAL OBLIGATION - 2002 SCHOOL BUILDING AND SITE BONDS

Date Authorized : November 1, 2002 Amount Authorized: \$6,870,000

<u>PAYMENT DATE - MAY 1ST</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>TOTAL</u>
2006-2007	3.000%	\$125,000	\$148,478	\$148,477	\$421,955
2007-2008	3.250%	145,000	146,603	146,602	438,205
2008-2009	3.250%	150,000	144,246	144,246	438,492
2009-2010	3.500%	160,000	141,809	141,809	443,618
2010-2011	3.600%	170,000	139,009	139,009	448,018
2011-2012	3.700%	175,000	135,949	135,948	446,897
2012-2013	3.875%	185,000	132,711	132,711	450,422
2013-2014	4.000%	195,000	129,127	129,127	453,254
2014-2015	4.100%	205,000	125,226	125,227	455,453
2015-2016	4.200%	215,000	121,024	121,024	457,048
2016-2017	4.300%	225,000	116,509	116,509	458,018
2017-2018	4.375%	235,000	111,672	111,672	458,344
2018-2019	4.500%	250,000	106,531	106,531	463,062
2019-2020	4.550%	260,000	100,906	100,906	461,812
2020-2021	4.600%	270,000	94,991	94,991	459,982
2021-2022	4.650%	285,000	88,781	88,781	462,562
2022-2023	4.700%	300,000	82,155	82,155	464,310
2023-2024	4.750%	315,000	75,105	75,105	465,210
2024-2025	4.750%	330,000	67,623	67,624	465,247
2025-2026	4.750%	345,000	59,786	59,786	464,572
2026-2027	4.800%	345,000	51,592	51,593	448,185
2027-2028	4.875%	350,000	43,313	43,312	436,625
2028-2029	4.875%	350,000	34,781	34,781	419,562
2029-2030	5.000%	350,000	26,250	26,250	402,500
2030-2031	5.000%	350,000	17,500	17,500	385,000
2031-2032	5.000%	350,000	8,750	8,750	367,500
<u>TOTAL</u>		<u>\$6,635,000</u>	<u>\$2,450,427</u>	<u>\$2,450,426</u>	<u>\$11,535,853</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 18, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Dryden Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dryden Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the Dryden Community Schools' basic financial statements and have issued our report thereon dated July 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dryden Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dryden Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Dryden Community Schools, in a separate letter dated July 18, 2006.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 18, 2006

To the Board of Education of
Dryden Community Schools

In planning and performing our audit of the financial statements of Dryden Community Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Dryden Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Dryden Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Food Service

All lunch sales have to be entered into the cash register and a reconciliation of the collections to the deposits.

The District should consider a point of sale system for the lunch program.

FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and



Dryden Community Schools

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July 18, 2006

- Adopting a budget that, when implemented, would put the district in a deficit.
- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Dryden Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



Dryden Community Schools

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July 18, 2006

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Dryden Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS